

# Schedule of Federal Audit Findings and Questioned Costs

## City of South Bend Pacific County January 1, 2008 through December 31, 2008

1. **The City's internal controls were inadequate to ensure compliance with federal suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	97.036 Public Assistance Grants (presidentially declared disasters)
<b>Federal Grantor Name:</b>	Department of Homeland Security
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	State Military Department
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### Description of Condition

The City spent \$756,375 in federal disaster funds during fiscal year 2008 to pay for the removal of windstorm-related debris from roadways, to replace waterlines and to repair and replace two pump stations. We reviewed the pump station project, which comprised \$403,456 or 53.3 percent of this money. The City was reimbursed for 75 percent of these costs under the matching agreement specified by the grant.

We found the City did not verify that project vendors had not been suspended or debarred from receiving federal money. Federal guidelines require grant recipients to ensure vendors with contracts exceeding \$25,000 are not suspended or debarred. They may do this by checking the federal Excluded Parties List System (EPLS), obtaining a certificate or including language in the contract stating the vendors have not been suspended or debarred. The City did not have internal controls in place to ensure the federal requirements were met. The City did not obtain certification, include language in the contract and could not provide documentation to show that the EPLS was checked.

### Cause of Condition

The City hired a project manager to ensure compliance with the federal grant requirements. The project manager checked the state Department of Labor and Industries Web site for suspension and debarment, believing this would satisfy the federal grant requirements. The City did not monitor the project manager's documentation to ensure federal requirements were being met.

## **Effect of Condition and Questioned Costs**

The City cannot ensure federal funds are provided to vendors that are eligible to participate in federal programs. Any payments made to an ineligible party could be subject to recovery by the funding agency. However, we were able to verify the vendors were not federally suspended or debarred, therefore we are not questioning any costs.

## **Recommendation**

We recommend the City improve internal controls and monitoring to ensure compliance with federal suspension and debarment requirements.

## **City's Response**

*The City of South Bend wishes to thank you for bringing to the city's attention the lack of compliance relative to Excluded Parties List System (EPLS) as it applies to federal funding.*

*The City accepts total responsibility for the fact that it did not ensure total compliance.*

*The City, upon receipt of the audit finding, has taken immediate steps to ensure that all contracts formulated in-house are double checked vis-à-vis EPLS compliance. Furthermore, the City will notify any and all consultants or any other second party involved with grant contract writing to properly verify EPLS compliance. This being done, the City will double-check the action of the verification documentation.*

## **Auditor's Remarks**

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

## **Applicable laws and Regulations**

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 2, Code of Federal Regulations, Section 180.300 - What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.